10/17/80 B4750-1 U

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday
(Noon)

Oct. 10, 1980

All in all, it was a sloppy week, with little convincing sense of direction. Following the weekend, the funds market was extremely soft, despite repeated Federal Reserve attempts to drain reserves. The root of the problem was the RPs that the Fed arranged on the previous Friday, when the funds rate briefly seemed likely to hit 14% (the top of the Fed's presumed 8%-14% range for the weekly average funds rate). As a result of the oversupply, funds began to soften late Friday, and the problem was probably further compounded after the weekend as Fed projection errors for various operating factors began to swell reserve availability. The Fed never did manage to regain control of the situation; and on Wednesday night, funds were bid for at a mere 1/4%.

A firming tendency was evident right from the start of the new statement week on Thursday, and funds generally traded in the 12 1/2% to 12 3/4% range prior to the weekend. That is roughly consistent with our estimated net borrowed reserves target for the current statement week on the order of $1.2 billion or so. However, some of the upward pressure undoubtedly reflected reserve positioning problems created for banks by the three-day weekend.

While the funds market was under pressure, other markets took on a somewhat improved tone. This reflected the emergence of some retail buying interest and helped lower rates on most money and capital market instruments. Underlying the reawakening of investor demand was the spreading view that the sharply higher levels of interest rates--short-term rates up about 5% since June, bond rates up about 2%-2 1/2%--could well cause the recovery to stall. Also, some market participants apparently thought that President Carter's repeated criticism of high interest rates--lately redirected at the banks instead of the Fed--might contribute to some near-term easing of rates.

At present, however, these are rather fragile elements from which to build a rally. It appears that some participants have exaggerated the likely impact of presidential criticism on the Fed, particularly in view of the Fed's announced intention to lower the monetary aggregates growth targets by 1/2% in 1981. In the near term, the funds rate appears likely to stay in the upper part of the 12%-13% area--and that could be bad news for rates on some money-market instruments, especially Treasury bills, which appear to have been priced recently to reflect anticipations of considerably lower funds costs (on Friday RP rates were about a full percentage point above bill rates).

<u>While we continue to look for drops in rates by year-end, the immediate outlook is for nervous stability or possibly some modest backups of interest rates</u>.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

Irving Trust

Market Yields

	10/10/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors with highest credit rating	13.50%	13.50%	14.50%
Effective since	10/1/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	12.88	13.50	12.88
Repurchase Agreements	12.25	12.50	12.00
U.S. Treasury Issues			
Bills			
3 months	11.55	11.80	11.80
6 months	11.88	12.10	12.20
1 year	11.95	12.15	12.40
Coupons			
2 years	11.60	11.72	11.25
4 years	11.55	11.65	10.55
7 years	11.47	11.58	10.35
10 years	11.40	11.52	10.18
Long Bond	11.20	11.45	9.80
Negotiable Certificates of Deposit-Secondary Market			
1 month	12.40	12.80	13.50
3 months	12.50	12.90	13.70
6 months	12.50	13.00	13.90
1 year	12.50	12.80	13.25
Banker's Acceptances			
1 month	12.50	12.75	13.50
3 months	12.50	12.90	13.90
6 months	12.55	12.95	14.30
Eurodollar Deposits			
1 month	12.88	13.25	14.63
2 months	12.88	13.44	14.81
3 months	12.94	13.50	15.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	12.00	11.00	12.75
1 month	12.00	12.25	13.00
3 months	11.25	11.75	12.50
Bank Holding Companies			
1 month	12.50	12.75	13.00
Dealer Placed:			
3 months	12.25	12.63	13.50
New AA Corporate Utility Bond	13.25	13.50	11.15
Tax Exempt			
6 month Project Notes	5.20	5.40	5.90
1 year AAA Bond	6.00	6.00	NA
5 year AAA Bond	6.30	6.20	NA
20 year AAA Bond	8.20	8.60	6.75

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

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